

MINIMUM ACCEPTABLE FINANCIAL STATEMENTS

Pursuant to T.C.A. 55-17-111 (a) (3), "a financial statement prepared in accordance with generally accepted accounting principles by a certified public accountant or public accountant dated not earlier than twelve (12) months prior to the date of the application and copies of the most current financial information furnished to the manufacturer, distributor or their representatives under the terms of any franchise agreements" is required for licensure.

In order to obtain a Motor Vehicle Dealer or an Automobile Auction license, an applicant must provide a set of financial statements prepared under generally accepted accounting principles (GAAP). The motor vehicle dealer applicant's minimum acceptable equity (net worth) must meet or exceed one thousand dollars (\$1,000.00). An automobile auction must have a minimum net worth of at least one hundred thousand dollars (\$100,000.00).

The financial statements must be compiled by a licensed Certified Public Accountant (CPA) or Public Accountant (PA) employed by a licensed accounting firm. The accompanying report is commonly referred to as follows:

Compilation-standard on the accrual basis-GAAP

The following "Guidelines" describe the necessary information to be included in the report that is submitted. Please provide your accountant with these instructions in order to insure an acceptable financial statement is compiled and signed. (Preparer TN license number and firm identification number must be included). An out-of-state preparer for an applicant must provide a copy of his/her current accountancy license.

Additionally, applicants for motor vehicle dealer license involving any franchise agreement (new vehicle) may provide copies of the most current financial information (Dealer Operating Statement) furnished to the motor vehicle manufacturer, distributor, or their representatives in lieu of a certified financial statement.

(Rev. 5/17/03)

GUIDELINES

Compilation Accrual Basis of Accounting

Mr. John Doe
XYZ Company
City, State

I (We) have compiled the accompanying balance sheet of XYZ Company (a proprietorship, partnership or corporation) as of MMDDYY, and the related statements of income and capital and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the owner. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any form of assurance on them.

Firm's signature

Report date

Notes:

1. Authority—The report illustrated above is an adaptation of SSARS No. 1, AR 100.14.
2. Normally, all reports should be addressed to the proprietor.
3. As discussed further beginning at paragraph 1001.3, the authors recommend that the notes to the financial statements clearly state what accounts or operations are included in the statements. For example, the note might read as follows.

The accompanying financial statements have been prepared solely from the accounts of XYZ Company, and do not include the personal accounts of the owner or those of any other operation in which he is engaged.

4. In addition to disclosures required by GAAP and disclosure recommended in Note 3 above, the authors also recommend that the statements disclose:
 - a. that no income taxes are payable by, or provided for, the applicant; and
 - b. substantial withdrawals made or anticipated by the applicant after the balance sheet date, if any
5. If the accountants believe that personal and business assets and liabilities have not been properly segregated, they should recommend issuance of personal financial statements, which include all the assets and liabilities of the individual. (See Ch.9) If this is not acceptable to the client, the accountants should consider withdrawing from the engagement.
6. The authors believe that the type of legal entity, if not obvious from the name, should be disclosed parenthetically after the name of the company or individual.
7. The report should be dated as of the completion of the accountant's work (SSARS No.1, AR 100.12). Section 604 discusses dating the accountant's report.
8. The financial statements should have all notes necessary for a fair presentation under GAAP. If notes are omitted, see Appendix 10B-4.
9. See section 504 for suggested financial statement headings and references to notes.
10. This report is appropriate if a combined statement of income and capital is presented. If the statement of changes in proprietor's capital is presented separately, the first paragraph would be modified as follows:

I (We) have compiled the accompanying balance sheet of XYZ Company as of MMDDYY, and the related statements of income, changes in proprietor's capital, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

11. Modified compilation reports for proprietorships that are not illustrated in this appendix can be drafted by modifying the examples for corporations in Appendixes 6A and 6C.